

CITY OF SAN DIEGO
M E M O R A N D U M

DATE: September 22, 2005

TO: Councilmember Brian Maienschein, District 5

FROM: Ronald H. Villa, Financial Management Director

SUBJECT: A Chronology of Steps Taken to Address the City's Retirement System

Per your request, below please find a list of the steps taken by the City of San Diego to address the funded status of the San Diego City Employees' Retirement System (SDCERS):

September 9, 2003: The Mayor and City Council established the Pension Reform Committee to address concerns about the current unfunded liability of the SDCERS.

September 21, 2004: The Pension Reform Committee delivered its final report to the City Council. The report included seventeen recommendations addressing several facets of the Retirement System and unfunded liability. This memo lists some of the recommendations approved to address the City's pension difficulties.

July 2004: The City was making annual contributions to the Retirement System that were below the actuarially required rates. The City entered into the "Gleason Settlement" in July 2004. The City agreed to abandon the agreements between the City and SDCERS known as Manager's Proposal I and II. The City also agreed to contribute a fixed amount of \$130 million for Citywide contributions in Fiscal Year 2005, which was less than the full actuarial amount but \$45 million more than the Fiscal Year 2004 contribution amount. Beginning with the June 30, 2004 Annual Actuarial Valuation, the UAAL amortization period was reset to a new 30-year fixed amortization period; for Fiscal Years 2006, 2007 and 2008, the City agreed to contribute based on the actuarially determined funding level with the new 30-year fixed amortization period commencing with Fiscal Year 2005. After Fiscal Year 2008, the City will continue contributing at the rates calculated by the SDCERS actuary in its annual valuation and approved by the SDCERS' Board. In addition, because of the settlement, the City provided SDCERS with trust deeds of City-owned property of approximately \$500 million to secure payment of the annual actuarial contribution through Fiscal Year 2008.

November 2, 2004:

- a. Proposition G, a Charter amendment approved by the San Diego voters, changed the amortization period for the UAAL to no longer than 15 years and the amortization period for benefits associated with net accumulated actuarial gains to no less than five years, beginning with Fiscal Year 2009. This will increase the annual cost to amortize the UAAL and enhance the funded ratio as compared to a 30 year amortization. The approved proposition also changed the amortization period for the cost of a past service liability

associated with new retirement benefit increases to be no greater than a fixed, straight-line, five year amortization schedule.

- b. Proposition H, a Charter amendment approved by the San Diego voters, changed the composition of the SDCERS' Board to include seven citizens without personal interest in the Retirement System. The remaining seats are filled as follows: two elected by general members, one elected by fire safety members, one elected by police safety members, one elected by retiree members, and one appointed by the City Manager or designee.

October 11, 2004: Public Disclosure Ordinance, approved by the Mayor and City Council, will help improve the accuracy of financial information disclosed.

Fiscal Year 2005: In prior years, retiree health care payments were paid out of the Retirement System assets. In Fiscal Year 2005, the City paid \$14.9 million for the total Citywide payment for retiree health. Of that amount, \$7.9 million was paid from the health care trust taken from the Retirement System and the balance of \$7.0 million was paid from City funds. The Fiscal Year 2006 Annual Budget provides \$16.5 million for retiree health care benefits, which will be paid by the City and no Retirement System funds will be used.

Fiscal Year 2005: Unclassified employees began paying more to the Retirement System, thereby relieving the City of that obligation and saving the City approximately \$1.4 million in Fiscal Year 2005.

Fiscal Year 2005 and Fiscal Year 2006: Annual Budget included a net reduction of 172.89 and 238.37 budgeted positions Citywide respectively. By downsizing the organization, the liabilities in the Retirement System and the City's full actuarial contributions have decreased.

April 18, 2005: The City adopted a Multi-Year Financial Forecast (MYFF) "to keep the City disciplined and focused on the highest priorities." By providing a forecast of revenues and expenditures, and incorporating a variety of core assumptions, the MYFF will assist the City in modifying and making the necessary changes to the Retirement System structure, including enhancing the funded ratio of the system.

May 31, 2005: Major economic changes to the labor agreements between the City and each of the labor organizations occurred during the most recent labor negotiations approved by the Mayor and City Council.

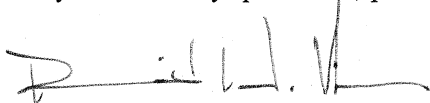
- a. The negotiated wage freezes for Fiscal Years 2006 and 2007 are projected to have an approximately \$151 million positive impact on the pension liability.
- b. The use of the City "pick-up" of the employee pension toward the unfunded liability will help enhance the funding ratio of the Retirement System.

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- c. Several benefits were eliminated for employees hired on or after July 1, 2005 for all bargaining units. These changes include the elimination of the following benefits: The Deferred Retirement Option Plan (DROP), the 13th Check, the option to purchase years of service credits ("air-time"), and the elimination of all formulae except 2.5% at 55 for General Members and 3.0% at 50 for Safety Members. This reduction in benefits will have a positive impact on the pension liability.

September 12, 2005: The City Council directed the City Manager to proceed with the further evaluation of pension solutions as presented in the City Manager's Report CMR-5-190, including frequent updates to the City Council detailing leveraging of approximately \$17-\$18 million in City revenues generated from employee pick up savings during Fiscal Year 2006 via revenue securitization option and achieving a 80-85% funded ratio by Fiscal Year 2008.

If you have any questions, please contact me at (619) 236-6070.



Ronald H. Villa,
Financial Management Director

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